

MICHIGAN PUBLIC POWER AGENCY

Lansing, Michigan

FINANCIAL STATEMENTS

December 31, 2003

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1988, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Michigan Public Power Agency	County Ingham
Audit Date December 31, 2003	Opinion Date March 18, 2004	Date Accountant Report Submitted to State: ENTER DATE HERE	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.

2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			X
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) Virchow, Krause & Company, LLP			
Street Address 10 Terrace Court	City Madison	State WI	ZIP 50707
Accountant Signature			

MICHIGAN PUBLIC POWER AGENCY

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December 31, 2003

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INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners
Michigan Public Power Agency
Lansing, Michigan

We have audited the accompanying combined financial statements of Michigan Public Power Agency (MPPA) as identified in the accompanying table of contents as of and for the year ended December 31, 2003. These combined financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to in the first paragraph present fairly, in all material respects, the combined financial position of MPPA as of December 31, 2003, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 2 - 8 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures that consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the combined financial statements taken as a whole. The financial information on pages 28 - 37 is presented for purposes of additional analysis and is not a required part of the combined financial statements of Michigan Public Power Agency. Such information for the year ended December 31, 2003 has been subjected to the auditing procedures applied in our audit of the combined financial statements and, in our opinion, is fairly stated in all material respects in relation to the combined financial statements taken as a whole.

Madison, Wisconsin
March 18, 2003

Virchow, Krause & Company, LLP

**MANAGEMENT'S DISCUSSION
AND ANALYSIS**

MICHIGAN PUBLIC POWER AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2003

The management of Michigan Public Power Agency (MPPA) offers all persons interested in the financial position of MPPA this narrative overview and analysis of MPPA's financial performance during the year ending December 31, 2003 and 2002. You are invited to read this narrative in conjunction with MPPA's financial statements.

FINANCIAL HIGHLIGHTS

- MPPA's total net assets decreased \$215,200, or 41% from the prior year. This was due to general office operations in excess of member dues and other revenues.
 - MPPA's operating expenses in 2003 were \$2,973,000 higher than in 2002. This is a 3% increase in operating expenses from the prior year. Most of the increase was due to higher general and administrative expense in the Belle River project and the first full year operation of the Combustion Turbine project. These costs were passed on to project participants resulting in an increase in operating revenues of \$3,568,000 or about 3%. The net effect was an increase in operating income of \$595,000 compared to the prior year.
 - Total agency assets increased \$7,331,000 while total liabilities increased \$7,546,000. These are the result of normal operations including the payment of debt and continuing capital asset improvements.
-

OVERVIEW OF THE FINANCIAL STATEMENTS

Michigan Public Power Agency is a public body politic and corporate of the state of Michigan. MPPA was created in 1978 under Act 448 of the Public Acts of Michigan, 1976, as amended. The purpose of MPPA is to oversee the development and operation of various projects to supply electric power and energy to the project members. MPPA has thirteen members, each of which is a municipal corporation in the State of Michigan and owns and operates a municipal electric system.

This annual report consists of two parts: Management's Discussion and Analysis (this section) and the basic financial statements. MPPA is a self-supporting entity and follows proprietary fund reporting; accordingly, the financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Proprietary fund statements offer financial information about the activities and operations of MPPA.

The combined financial statements are designed to provide readers with a broad overview of MPPA's finances, in a manner similar to a private-sector business.

MPPA's operations consist of four power projects:

- Campbell No. 3
- Belle River
- Power Pool
- Combustion Turbine #1

In addition, MPPA members share in the administrative and general costs incurred to operate these projects.

MICHIGAN PUBLIC POWER AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2003

OVERVIEW OF THE FINANCIAL STATEMENTS (cont.)

It is very important to note however that due to contractual arrangements, which are the basis of each power project, no monies can be shared between projects. The cash flow of one power project, although combined with all others in the combined financial statement presentation as required by financial reporting rules, cannot and should not be considered available for any other project. Great care should be exercised in evaluating the financial condition of MPPA as a combined entity from the use of the Combined Financial Statements.

- The Combined Statement of Revenues, Expenses, and Changes in Net Assets presents information showing how MPPA's net assets changed during the most recent year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.
- The Combined Statement of Cash Flows report the cash provided and used by operating activities, as well as other cash sources such as investment income and cash payments for repayment of bonds and capital additions.
- The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found beginning on page 14 of this report.

MPPA FINANCIAL ANALYSIS

An analysis of MPPA's financial position begins with a review of the Balance Sheet, and the Statement of Revenues, Expenses and Changes in Net Assets report information. These two statements report MPPA's net assets and changes therein. As noted earlier, great care must be taken when evaluating MPPA's financial position and results of operations when using the combined financial presentations due to the legal separation that must be maintained between projects. However, broad patterns and trends may be observed at this level that should lead the reader to study carefully the financial statements of each project.

A summary of MPPA's Combined Balance Sheet is presented below in Table 1. The Combined Statement of Revenues, Expenses and Changes in Net Assets is summarized in Table 2.

MICHIGAN PUBLIC POWER AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS (cont.) December 31, 2003

MPPA FINANCIAL ANALYSIS (cont.)

Table 1
Condensed Balance Sheet

	<u>2003</u>	<u>2002</u>
Current assets	\$ 128,740,905	\$ 124,726,265
Restricted assets	44,347,901	30,301,934
Non-current assets		
Capital assets	256,940,514	267,158,591
Other assets	<u>3,994,694</u>	<u>4,506,242</u>
Total Assets	<u>\$ 434,024,014</u>	<u>\$ 426,693,032</u>
Current liabilities	\$ 31,318,390	\$ 12,246,309
Non-current liabilities		
Deferred revenue to be recognized in future periods	67,135,954	62,256,371
Revenue bonds payable, less current portion	<u>335,260,046</u>	<u>351,665,528</u>
Total Liabilities	<u>433,714,390</u>	<u>426,168,208</u>
Net assets		
Invested in capital assets, net of related debt	(77,258,049)	(65,834,127)
Restricted	8,174,639	8,469,196
Unrestricted	<u>69,393,034</u>	<u>57,889,755</u>
Total Net Assets	<u>309,624</u>	<u>524,824</u>
Total Liabilities and Net Assets	<u>\$ 434,024,014</u>	<u>\$ 426,693,032</u>

MICHIGAN PUBLIC POWER AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS (cont.) December 31, 2003

MPPA FINANCIAL ANALYSIS (cont.)

Table 2
Condensed Statement of Revenues, Expenses and Changes in Net Assets

	<u>2003</u>	<u>2002</u>
Operating Revenues	\$ 117,394,013	\$ 113,826,102
Non-Operating Revenues	<u>2,169,824</u>	<u>6,374,719</u>
Total Revenues	<u>119,563,837</u>	<u>120,200,821</u>
Depreciation Expense	14,614,926	13,720,302
Other Operating Expenses	83,625,870	81,547,619
Non-Operating Expenses	<u>16,658,658</u>	<u>20,067,416</u>
Total Expenses	<u>114,899,454</u>	<u>115,335,337</u>
Income Before Deferred Revenue	4,664,383	4,865,484
Deferred Revenue to be Recognized in Future Periods Net of Deferred Revenue Recognized in Current Period	<u>(4,879,583)</u>	<u>(4,882,395)</u>
Changes in Net Assets	(215,200)	(16,911)
Beginning Net Assets	<u>524,824</u>	<u>541,735</u>
Ending Net Assets	<u>\$ 309,624</u>	<u>\$ 524,824</u>

MPPA uses fund accounting, Federal Energy Regulatory Commission accounting and special utility industry terminology to ensure and demonstrate compliance with finance-related legal requirements.

Campbell No. 3 Project

MPPA jointly owns and operates the Campbell Unit No. 3 electric generation facility with Consumer's Energy. Ten of MPPA's members participate in this project, consisting of a 4.8% undivided ownership interest in the coal-fired generating plant in Ottawa County, Michigan. During 2002 MPPA issued \$11,000,000 in revenue bonds for capital improvements at the Campbell No. 3 facility. Unspent resources remaining at December 31, 2003 of \$6,094,000 are reported in the construction account as a restricted asset. Operating revenues for 2003 decreased by 3% compared to 2002. During the same time period the cost of power decreased by 3%.

MICHIGAN PUBLIC POWER AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS (cont.) December 31, 2003

MPPA FINANCIAL ANALYSIS (cont.)

Belle River Project

With 11 of the member communities participating in this project, MPPA jointly owns and operates the Belle River Power Plant with Detroit Edison. MPPA has a 37.22% undivided ownership interest in Belle River Unit No.1, a coal-fired electric generating unit located in St. Clair County, Michigan. The outstanding bonds related to the construction of this project were advanced refunded in 2002 with the issuance of \$280,180,000 in new revenue bonds. MPPA was able to use a substantial amount of existing resources to decrease the amount of new debt required for this refinancing due to the elimination of the reserve requirement on the new bonds. The cost of power increased by 3% from 2002 to 2003. Sales to participants increased 2%, transmission costs decreased 78% and administrative and general cost increased 58%. The overall result was a 9% decrease in operating income. Interest and amortization expenses decreased from 2002 to 2003 due to the refinancing of the project debt. The net cash and cash equivalents of the Belle River Project increased by \$22,214,000 during 2003 mainly as a result of the shorter maturity of new investments made after the maturity of longer dated investments.

Power Pool Project

The Power Pool Project was established to allow member communities to pool their generating resources and electric loads. The Power Pool uses economic dispatch principles in determining the moment-by-moment output of generating resources, along with any purchases of energy from third party resources, so as to obtain the lowest overall electric energy cost for the Power Pool that is reasonably attainable at any given point in time. The group experienced a 4% decrease in sales and a corresponding 4% decrease in operating expenses in 2003 compared to 2002. For 2003 purchased power made up 84% of the Power Pool operating costs. For 2003, the operating costs of the Power Pool project exceeded the member billings resulting in the application of deferred revenue from a previous period.

Combustion Turbine #1 Project

MPPA began construction of the Combustion Turbine #1 Project (CT Project) in 2001. Construction of the natural-gas fired combustion turbine generating unit was completed in 2002 and operation began in November of that year. \$34,645,000 of revenue bonds were issued in 2002 to finance the construction. Currently there are five members participating in this project. For the year ended December 31, 2003 this projected reported \$259,833 of deferred revenues to be recognized in a future period.

General Office Operations

MPPA accounts for the general office operations that cannot be attributed to any one specific project in an internal service fund. Member dues are based on the annual budgeted operating costs, with a portion of the operating costs allocated to each project as overhead. The loss for the General Office Operations fund was \$215,200 in 2003 compared to a loss of \$16,911 in 2002. The increased operating costs related mainly to specialized outside services.

MICHIGAN PUBLIC POWER AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS (cont.) December 31, 2003

CAPITAL ASSETS

MPPA's investment in capital assets as of December 31, 2003 amounts to \$256,940,514 (net of accumulated depreciation). This investment in capital assets includes investment in plants, transmission systems, land, buildings, improvements, machinery and equipment. The total decrease in MPPA's investment in capital assets for the year was 3.8%. Each project contributed to this differently. The Campbell No. 3 Project investment in capital assets decreased by 2.8% with the slowed plant improvement initiatives and annual depreciation. The investment in the Belle River Project capital assets as well as the General Office Operations investment decreased by 4.3%, both as a result of annual depreciation. Power Pool Project capital investment decreased by \$760 due to depreciation. The completion of the Combustion Turbine Project increased that funds investment in capital assets by \$61,200 in 2003. See Note 5 for additional details.

LONG-TERM DEBT

At December 31, 2003, MPPA had total liabilities outstanding of \$433,714,000 of which \$350,275,000 represents bond payments payable. These remaining principal payments on long-term debt, including current amounts due, are as follows:

Campbell No. 3 Project	\$ 26,699,000
Belle River Project	288,992,000
Combustion Turbine #1 Project	<u>34,584,000</u>
Total	<u>\$ 350,275,000</u>

See Note 6 for additional details.

ECONOMIC CONDITIONS

The 2004 budget was adopted amid a slow-down in the national and state economies. The member-cities' economies have shown varying amounts of growth in both demand and energy. Interest rates, having been historically low over the past three years, are expected to begin increasing by late 2004. In order to assist its members in meeting their future power supply requirements, MPPA performs annual planning reviews of load and resource projections for all of its members that request such service. These projections are utilized in preparing the annual budgets and evaluating the need for future capital projects. Because MPPA's members are billed based on actual costs, revenues will fluctuate with operating costs rather than be determined by any set rates.

MICHIGAN PUBLIC POWER AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS (cont.) December 31, 2003

CURRENTLY KNOWN FACTS

MPPA's transmission agreements have undergone changes in the past year. Consumers' Energy has transferred its transmission assets to Michigan Electric Transmission Company (METC), a subsidiary of Consumer's Energy. MPPA has taken legal action that resulted in settlement agreements which require that MPPA's rights under the Consumers transmission Agreement will be honored and performed by METC, or any subsequent purchaser of METC or a substantial portion of the transmission facilities. FERC has approved the sale of METC to TransElect. The settlement agreement also provides for the purchase of additional transmission assets by MPPA, for which the purchase price is not currently known. Detroit Edison has transferred its transmission system to ITC, a wholly-owned subsidiary of DTE Energy Company. MPPA's agreements with Detroit Edison have been assigned by ITC.

CONTACTING MPPA'S FINANCIAL MANAGEMENT

This financial report is designed to provide our customers, investors and creditors with a general overview of MPPA's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Michigan Public Power Agency, 809 Centennial Way, Lansing, MI 48917.

Balance Sheet Follows

MICHIGAN PUBLIC POWER AGENCY

COMBINED BALANCE SHEET

December 31, 2003

(With comparative totals as of December 31, 2002)

	ASSETS						(Memorandum Only)
	Campbell No. 3 Project	Belle River Project	Power Pool Project	Combustion Turbine #1	General Office Operation	2003	2002
CURRENT ASSETS							
Cash and Cash Equivalents							
Project account	\$ 5,980,700	\$ 27,634,571	\$ -	\$ -	\$ -	\$ 33,615,271	\$ 11,374,634
Operation and maintenance account	1,502,118	8,316,270	-	1,746,878	-	11,565,266	9,228,209
Operation and maintenance reserve account	250,000	-	-	-	-	250,000	250,000
Fuel reserve account	800,000	-	-	-	-	800,000	800,000
Other	-	-	2,628,642	-	258,494	2,887,136	2,851,535
Total Cash and Cash Equivalents	8,532,818	35,950,841	2,628,642	1,746,878	258,494	49,117,673	24,504,378
Investments - Project Account							
US Government securities	-	16,328,000	-	-	-	16,328,000	16,956,000
US Government Agency notes	-	41,323,925	-	-	-	41,323,925	61,060,826
Accrued interest receivable	7,420	738,332	-	6,284	-	752,036	1,248,111
Accounts receivable	801,839	6,347,008	3,983,510	349,248	173,533	11,655,138	10,840,816
Fuel inventory	919,682	5,846,720	-	108,400	-	6,874,802	7,398,939
Materials and supplies inventory	-	2,457,486	-	231,845	-	2,689,331	2,717,195
Total Current Assets	10,261,759	108,992,312	6,612,152	2,442,655	432,027	128,740,905	124,726,265
RESTRICTED ASSETS							
Debt service account	3,030,706	19,211,135	-	1,690,801	-	23,932,642	5,827,902
Construction account	6,093,645	-	-	5,988,144	-	12,081,789	16,411,568
Reserve and contingency account	-	8,318,166	-	-	-	8,318,166	8,047,520
Scholarship Fund	-	-	-	-	15,304	15,304	14,944
Total Restricted Assets	9,124,351	27,529,301	-	7,678,945	15,304	44,347,901	30,301,934
NON-CURRENT ASSETS							
Capital assets							
Utility plant in service	41,999,846	446,407,122	2,509,826	25,747,924	863,036	517,527,754	513,145,123
Allowance for depreciation	(22,478,400)	(234,234,826)	(2,508,750)	(907,879)	(457,385)	(260,587,240)	(245,986,532)
Total Capital Assets	19,521,446	212,172,296	1,076	24,840,045	405,651	256,940,514	267,158,591
Other assets							
Deferred bond issue costs - net	352,754	2,803,468	-	838,472	-	3,994,694	4,506,242
Prepaid long-term lease (deferred obligation)	-	322,000	-	-	(322,000)	-	-
Total Non-Current Assets	19,874,200	215,297,764	1,076	25,678,517	83,651	260,935,208	271,664,833
TOTAL ASSETS	\$ 39,260,310	\$ 351,819,377	\$ 6,613,228	\$ 35,800,117	\$ 530,982	\$ 434,024,014	\$ 426,693,032

MICHIGAN PUBLIC POWER AGENCY

COMBINED BALANCE SHEET

December 31, 2003

(With comparative totals as of December 31, 2002)

LIABILITIES AND NET ASSETS

	Campbell No. 3 Project	Belle River Project	Power Pool Project	Combustion Turbine #1	General Office Operation	2003	(Memorandum Only) 2002
CURRENT LIABILITIES							
Accounts payable and accrued expenses	\$ 225,006	\$ 1,312,622	\$ 5,339,908	\$ 143,327	\$ 206,054	\$ 7,226,917	\$ 6,825,140
Current Liabilities Payable from Restricted Assets							
Accrued interest payable	673,013	7,515,728	-	872,428	-	9,061,169	3,161,225
Current portion of revenue bonds	2,355,000	11,850,000	-	810,000	-	15,015,000	2,245,000
Scholarship fund	-	-	-	-	15,304	15,304	14,944
Total Current Liabilities Payable from Restricted Assets	3,028,013	19,365,728	-	1,682,428	15,304	24,091,473	5,421,169
Total Current Liabilities	3,253,019	20,678,350	5,339,908	1,825,755	221,358	31,318,390	12,246,309
NON-CURRENT LIABILITIES							
Deferred revenue to be recognized in future periods	11,663,528	53,998,736	1,273,320	200,370	-	67,135,954	62,256,371
Revenue bonds payable, less current portion	24,343,763	277,142,291	-	33,773,992	-	335,260,046	351,665,528
Total Non-Current Liabilities	36,007,291	331,141,027	1,273,320	33,974,362	-	402,396,000	413,921,899
Total Liabilities	39,260,310	351,819,377	6,613,228	35,800,117	221,358	433,714,390	426,168,208
NET ASSETS							
Invested in capital assets, net of related debt and obligations	(730,918)	(73,694,527)	1,076	(2,917,331)	83,651	(77,258,049)	(65,834,127)
Restricted	2,693	8,163,573	-	8,373	-	8,174,639	8,469,196
Unrestricted	728,225	65,530,954	(1,076)	2,908,958	225,973	69,393,034	57,889,755
Total Net Assets	\$ -	\$ -	\$ -	\$ -	\$ 309,624	\$ 309,624	\$ 524,824
TOTAL LIABILITIES AND NET ASSETS	\$ 39,260,310	\$ 351,819,377	\$ 6,613,228	\$ 35,800,117	\$ 530,982	\$ 434,024,014	\$ 426,693,032

See accompanying notes to financial statements.

MICHIGAN PUBLIC POWER AGENCY

COMBINED STATEMENTS OF REVENUES, EXPENSES AND CHANGES NET ASSETS

Year Ended December 31, 2003

(With comparative totals for the year ended December 31, 2002)

	Campbell No. 3 Project	Belle River Project	Power Pool Project	Combustion Turbine No.1	General Office Operation	2003	(Memorandum Only) 2002
OPERATING REVENUES							
Sales to participants	\$ 10,993,949	\$ 63,181,402	\$ 37,932,223	\$ 4,535,706	\$ -	\$ 116,643,280	\$ 113,112,548
Other	-	-	-	-	750,733	750,733	713,554
Total Operating Revenues	<u>10,993,949</u>	<u>63,181,402</u>	<u>37,932,223</u>	<u>4,535,706</u>	<u>750,733</u>	<u>117,394,013</u>	<u>113,826,102</u>
OPERATING EXPENSES							
Cost of Power							
Production	5,183,651	27,159,064	-	1,468,808	-	33,811,523	30,764,214
Purchased	1,439,311	3,591,294	32,306,462	-	-	37,337,067	40,549,502
Total Cost of Power	<u>6,622,962</u>	<u>30,750,358</u>	<u>32,306,462</u>	<u>1,468,808</u>	<u>-</u>	<u>71,148,590</u>	<u>71,313,716</u>
Transmission	28,855	101,052	5,130,145	12,123	-	5,272,175	5,365,430
General and administrative	453,832	4,806,312	763,837	244,435	936,689	7,205,105	4,868,473
Depreciation	<u>1,218,272</u>	<u>12,520,485</u>	<u>767</u>	<u>839,021</u>	<u>36,381</u>	<u>14,614,926</u>	<u>13,720,302</u>
Total Operating Expenses	<u>8,323,921</u>	<u>48,178,207</u>	<u>38,201,211</u>	<u>2,564,387</u>	<u>973,070</u>	<u>98,240,796</u>	<u>95,267,921</u>
Operating Income (Loss)	<u>2,670,028</u>	<u>15,003,195</u>	<u>(268,988)</u>	<u>1,971,319</u>	<u>(222,337)</u>	<u>19,153,217</u>	<u>18,558,181</u>
NONOPERATING REVENUES (EXPENSES)							
Interest cost incurred	(1,460,889)	(12,969,680)	-	(1,749,173)	-	(16,179,742)	(19,213,620)
Amortization of financing-related costs	(72,026)	(348,101)	-	(58,789)	-	(478,916)	(853,796)
Investment income	183,019	3,261,642	38,495	96,476	7,137	3,586,769	6,660,699
Net change in fair value of investments	-	(1,416,945)	-	-	-	(1,416,945)	(285,980)
Total Nonoperating Revenues (Expenses)	<u>(1,349,896)</u>	<u>(11,473,084)</u>	<u>38,495</u>	<u>(1,711,486)</u>	<u>7,137</u>	<u>(14,488,834)</u>	<u>(13,692,697)</u>
Income before deferred revenue	1,320,132	3,530,111	(230,493)	259,833	(215,200)	4,664,383	4,865,484
Deferred revenue to be recognized in future periods	(1,320,132)	(3,530,111)	-	(259,833)	-	(5,110,076)	(5,307,409)
Deferred revenue recognized in current period	-	-	230,493	-	-	230,493	425,014
CHANGE IN NET ASSETS	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(215,200)</u>	<u>(215,200)</u>	<u>(16,911)</u>
NET ASSETS - Beginning of Year					<u>524,824</u>	<u>524,824</u>	<u>541,735</u>
NET ASSETS - END OF YEAR					<u>\$ 309,624</u>	<u>\$ 309,624</u>	<u>\$ 524,824</u>

See accompanying notes to financial statements.

Statement of Cash Flows Follows

MICHIGAN PUBLIC POWER AGENCY

COMBINED STATEMENTS OF CASH FLOWS

Year Ended December 31, 2003

(With comparative totals for the year ended December 31, 2002)

	Campbell No. 3 Project	Belle River Project	Power Pool Project	Combustion Turbine #1	General Office Operation	2003	(Memorandum Only) 2002
CASH FLOWS FROM OPERATING ACTIVITIES							
Received from customers	\$ 11,221,890	\$ 61,786,654	\$ 38,541,887	4,435,611	\$ 593,648	\$ 116,579,690	\$ 112,199,607
Paid to suppliers for goods and services	(7,104,956)	(33,222,247)	(38,027,493)	(2,854,710)	(726,103)	(81,935,509)	(80,196,211)
Paid to employees for services	(85,583)	(189,622)	(197,485)	(77,462)	(152,429)	(702,581)	(577,662)
Net Cash Flows From Operating Activities:	<u>4,031,351</u>	<u>28,374,785</u>	<u>316,909</u>	<u>1,503,439</u>	<u>(284,884)</u>	<u>33,941,600</u>	<u>31,425,734</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES							
Acquisition and construction of utility plant	(647,737)	(2,872,511)	-	(900,269)	-	(4,420,517)	(27,223,997)
Good faith bond deposit	-	-	-	-	-	-	(692,800)
Return of contributions to participating members	-	-	-	-	-	-	(3,159,050)
Proceeds from revenue bonds	-	-	-	-	-	-	353,014,838
Bond issue costs	(498)	(608)	-	(301)	-	(1,407)	(4,441,734)
Revenue bonds refunded	-	-	-	-	-	-	(327,806,666)
Loss on early extinguishment of debt, less noncash portion	-	-	-	-	-	-	(6,673,309)
Principal payment on revenue bonds	(2,245,000)	-	-	-	-	(2,245,000)	(25,713,334)
Interest paid on revenue bonds	(1,477,621)	(8,406,041)	-	(1,744,856)	-	(11,628,518)	(28,028,122)
Other	-	24,000	-	-	(42,056)	(18,056)	(8,304)
Net Cash Flows from Capital and Related Financing Activities	<u>(4,370,856)</u>	<u>(11,255,160)</u>	<u>-</u>	<u>(2,645,426)</u>	<u>(42,056)</u>	<u>(18,313,498)</u>	<u>(70,732,478)</u>
CASH FLOWS FROM INVESTING ACTIVITIES							
Long-term investments purchased	644,943	(19,019,346)	-	(818,372)	-	(19,192,775)	(35,096,803)
Long-term investments sold	-	20,364,901	-	3,730,223	-	24,095,124	53,060,029
Investment income	<u>185,974</u>	<u>3,749,096</u>	<u>38,495</u>	<u>102,142</u>	<u>7,137</u>	<u>4,082,844</u>	<u>7,127,801</u>
Net Cash Flows From Investing Activities	<u>830,917</u>	<u>5,094,651</u>	<u>38,495</u>	<u>3,013,993</u>	<u>7,137</u>	<u>8,985,193</u>	<u>25,091,027</u>
Net Change in Cash and Cash Equivalents	<u>491,412</u>	<u>22,214,276</u>	<u>355,404</u>	<u>1,872,006</u>	<u>(319,803)</u>	<u>24,613,295</u>	<u>(14,215,717)</u>
UNRESTRICTED CASH AND CASH EQUIVALENTS -							
Beginning of Year	<u>8,041,406</u>	<u>13,736,565</u>	<u>2,273,238</u>	<u>(125,128)</u>	<u>578,297</u>	<u>24,504,378</u>	<u>38,720,095</u>
UNRESTRICTED CASH AND CASH EQUIVALENTS -							
END OF YEAR	<u>\$ 8,532,818</u>	<u>\$ 35,950,841</u>	<u>\$ 2,628,642</u>	<u>\$ 1,746,878</u>	<u>\$ 258,494</u>	<u>\$ 49,117,673</u>	<u>\$ 24,504,378</u>

MICHIGAN PUBLIC POWER AGENCY

COMBINED STATEMENTS OF CASH FLOWS

Year Ended December 31, 2003

(With comparative totals for the year ended December 31, 2002)

	Campbell No. 3 Project	Belle River Project	Power Pool Project	Combustion Turbine #1	General Office Operation	2003	(Memorandum Only) 2002
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FLOWS FROM OPERATING ACTIVITIES							
Operating income (loss)	\$ 2,670,028	\$ 15,003,195	\$ (268,988)	\$ 1,971,319	\$ (222,337)	\$ 19,153,217	\$ 18,558,181
Adjustments to reconcile operating income to net cash provided by (used in) operating activities							
Depreciation	1,218,272	12,520,485	767	839,021	36,381	14,614,926	13,720,302
Changes in assets and liabilities							
Accounts receivables	227,940	(1,394,748)	609,663	(100,095)	(157,085)	(814,325)	(1,629,402)
Fuel inventory	1,614	630,924	-	(108,400)	-	524,138	85,611
Materials and supplies inventory	-	55,929	-	(28,065)	-	27,864	39,452
Accounts payable and accrued expense	(86,503)	1,559,000	(24,533)	(1,070,341)	58,157	435,780	651,590
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>\$ 4,031,351</u>	<u>\$ 28,374,785</u>	<u>\$ 316,909</u>	<u>\$ 1,503,439</u>	<u>\$ (284,884)</u>	<u>\$ 33,941,600</u>	<u>\$ 31,425,734</u>

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS December 31, 2003

NOTE 1 – NATURE OF OPERATIONS

Michigan Public Power Agency (MPPA) is a public body politic and corporate of the state of Michigan created in 1978 under Act 448 of the Public Acts of Michigan, 1976, as amended. MPPA was formed to undertake the planning, financing, development, acquisition, construction, improvement, operation and maintenance of projects to supply electric power and energy for the present or future needs of its members. Each MPPA member is a municipal corporation organized under the laws of the state of Michigan and owns and operates a municipal electric system. Of MPPA's thirteen members as of December 31, 2003, ten are participants in the Campbell No. 3 Project, eleven are participants in the Belle River Project, eight are participants in the Power Pool Project and five are participants in the Combustion Turbine No.1 Project.

BASIS OF PRESENTATION

The financial activities of MPPA are recorded in separate proprietary funds described as follows:

Enterprise Funds

The Campbell No. 3, Belle River, Power Pool Project and Combustion Turbine No. 1 Funds account for the financing and operation of MPPA's interest in the respective projects, where costs are recovered through participant charges. The accounts of these Funds are maintained in accordance with the Uniform System of Accounts of the Federal Energy Regulatory Commission. The Power Pool Project allows participants to pool their generating resources and electrical loads in order to coordinate the production and distribution of the most economic source of electricity at any given point in time.

General Office Operations Fund

The General Office Operation Fund accounts for financing, through participant charges, the general and administrative activities of MPPA not related to any specific electric power supply project.

MPPA's financial statements are prepared on the accrual basis of accounting following generally accepted accounting principles as established by the GASB. As permitted under these GASB established principles, the proprietary funds of MPPA do not apply Financial Accounting Standards Board (FAS) statements and interpretations issued after November 30, 1989, except for FAS 71 and related FAS statements for entities operating in industries subject to regulatory issues.

On January 1, 2002 MPPA adopted the provisions of Governmental Accounting Standards Board Statement No. 34 *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Statement 34 established standards for external financial reporting for all state and local governmental entities which includes a statement of net assets, a statement of revenues, expenses, and changes in net assets and a statement of cash flows. It requires the classification of net assets into three components – invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS December 31, 2003

NOTE 1 – NATURE OF OPERATIONS (cont.)

BASIS OF PRESENTATION (cont.)

- *Invested in capital assets, net of related debt and other obligations* – This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, obligations, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.
- *Restricted* – This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted* – This component of net assets consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt”.

BUDGETARY ACCOUNTING

The Board of Commissioners of MPPA adopts an operating budget each year for all funds, on the same basis of accounting used to reflect actual revenues and expenses in the financial statements. The General Manager exercises budgetary control.

USE OF ESTIMATES

Preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

OPERATING REVENUES

The Agency distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Agency's principal ongoing operations. The principal operating revenues of the Agency are charges to members for sales and services. Operating expenses for the Agency includes the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS December 31, 2003

NOTE 1 – NATURE OF OPERATIONS (cont.)

UTILITY PLANT

Additions to and replacements of utility plant are recorded at original cost including an allowance for borrowed funds. Depreciation is recorded using the straight-line method using service lives of three to 54 years. The agency capitalizes assets with a cost greater than \$500.

Interest is capitalized on utility property acquired with tax-exempt debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period.

INVENTORIES

Fuel inventories of coal for the Belle River Project, Campbell No. 3 Project and the Combustion Turbine No. 1 Project are stated at average cost. The materials and supplies inventory is stated at average cost.

CASH EQUIVALENTS

For purposes of the statement of cash flows, cash equivalents are cash and investments having an initial maturity of three months or less.

INVESTMENTS

Investments are stated at fair market value, based on quoted market prices.

DEFERRED CHARGES

Bond issuance costs, premiums and discounts are deferred and amortized over the life of the bonds based on the effective interest method. Losses on advance refundings occurring after 1993 are deferred and amortized on a straight-line basis over the repayment period of the related debt.

DEFERRED REVENUES

The Agency applies the provisions of Statement of Financial Accounting Standards (FAS) No. 71, "Accounting for the Effects of Certain Types of Regulation" (FAS No. 71). This statement recognizes the effects of operating in a regulatory environment creating future economic benefits and obligations affecting its members. Accordingly, the Agency records these future economic benefits and obligations as regulatory assets and regulatory liabilities, respectively.

Regulatory assets represent probable future revenues associated with previously incurred costs that are expected to be recovered from customers. Regulatory liabilities represent probable future reductions in revenues associated with amounts that are expected to be refunded to members through the ratemaking process.

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS December 31, 2003

NOTE 1 – NATURE OF OPERATIONS (cont.)

DEFERRED REVENUES (cont.)

In order for the Agency to continue to apply the provisions of FAS No. 71, it must continue to meet the following three criteria: (1) the Agency's rates for services provided to its customers must be established by an independent third-party regulator or its own governing board empowered by a statute to establish rates that bind customers; (2) the Agency's rates must be designed to recover the Agency's costs of providing the services; and (3) in view of the demand for the services and the level of competition, it is reasonable to assume that rates set at levels that will recover the Agency's costs can be charged to and collected from customers.

In accordance with the provisions of FAS 71, revenues collected from members in excess of operating expenses are deferred to future periods when they will be recognized as revenues.

RATES

Members are billed monthly based on estimated usage, with amounts adjusted to actual costs in future month's bills. Accrued revenues are not considered material to these financial statements.

TAXES

MPPA is exempt from State and Federal income taxes.

COMPENSATED ABSENCES

Under terms of employment, employees are granted one and one quarter day of sick leave per month. Employees can accumulate up to sixty-five days of sick leave, however there is no payment for unused sick leave upon termination of employment.

NOTE 2 – JOINT PROJECT OWNERSHIP AGREEMENTS

CAMPBELL UNIT NO. 3

MPPA and Consumers Energy Company (Consumers) entered into the following agreements dated October 1, 1979, as amended, relating to Consumers' Campbell Unit No. 3 steam-electric generating unit, which went into commercial operation in September 1980:

The Campbell Ownership Agreement provides for MPPA to own a 4.8% undivided interest in Campbell Unit No. 3, for Consumers to operate Campbell Unit No. 3, for the sale of surplus electric capacity to Consumers, for operating costs of Campbell Unit No. 3 to be shared on a pro rata basis, and for MPPA to purchase an undivided ownership interest in the fuel supply for Campbell Unit No. 3.

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS December 31, 2003

NOTE 2 – JOINT AGREEMENTS (cont.)

CAMPBELL UNIT No. 3 (cont.)

The Campbell Transmission Agreement provides for MPPA to purchase a 58.06% undivided ownership interest in Consumers' Vergennes to Kenowa-Goss 345 KV transmission line, the method of determining certain charges for utilization of the Consumers transmission system, for the sale to Consumers of planned available transmission capacity in excess of MPPAs need, and for sharing transmission line operating expenses.

The Campbell Back-Up Agreement provides for Consumers to make backup electric capacity and energy available to MPPA from its electric system reserves in the event of total or partial unavailability of capacity and energy from Campbell Unit No. 3, and for determination of the associated backup electric capacity and energy charges to MPPA.

MPPA entered into a Power Sales Contract and a Project Support Contract with each of the ten members who elected to participate in the Campbell No. 3 Project. These contracts provide for the participant to purchase from MPPA the participant's entitlement share, as defined, of the generation and transmission of the Project. Each participant also shares proportionately in the proceeds from MPPAs sale of excess generating and transmission capacity to Consumers. Each participant is obligated to pay its share of the operating and debt service costs of the Project.

BELLE RIVER UNIT No. 1

On December 1, 1982, MPPA and the Detroit Edison Company (Edison) entered into the following agreements, as amended, relating to Edison's Belle River Unit No. 1 steam-electric generating unit, part of a two-unit generating station, which went into commercial operation in August 1984:

The Belle River Participation Agreement provides for MPPA to purchase a 37.22% undivided ownership interest in Belle River Unit No. 1 and an undivided ownership interest in certain common and joint facilities associated with Belle River Unit No. 1, for MPPA to purchase an undivided ownership interest in the fuel supply stockpile, for Edison to operate Belle River Units No. 1 and 2, for the sharing of operating costs of both units, for the sale of surplus electric capacity and energy to Edison, and for backup electric capacity and energy from Edison's electric system reserves to be available in the event of total or partial unavailability of power and energy from Belle River. Pursuant to the reliability exchange provisions in the Agreement, MPPA is entitled to 18.61% of the electric capacity and energy from each of the Belle River Units No. 1 and 2.

The Belle River Transmission Ownership and Operating Agreement with Edison provides for MPPA to purchase a 50.41% undivided ownership interest in Edison's Greenwood-St. Clair-Jewell-Stephens Transmission Line and the Monroe-Wayne-Coventry-Majestic Transmission Line, for Edison to operate the transmission lines, for the sharing of operating costs and for the sale of planned excess transmission capacity to Edison.

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS December 31, 2003

NOTE 2 – JOINT AGREEMENTS (cont.)

BELLE RIVER UNIT NO. 1 (cont.)

MPPA entered into the Belle River Transmission Ownership and Operating Agreement with Consumers, dated December 1, 1982, as amended, which provides MPPA with a 90% undivided ownership interest in certain Consumers-designated transmission lines, for Consumers to operate the transmission lines, for the sharing of operating costs and for the sale to Consumers of planned excess transmission capacity, if any.

MPPA entered into a Power Sales Contract and a Project Support Contract with each of the eleven members who elected to participate in the Belle River Project. These contracts provide for the participants to purchase from MPPA their entitlement share, as defined, of generation and transmission of the Project. Each participant also shares proportionately in MPPA's sale of excess generating and transmission capacity. Each participant is obligated to pay its share of power, transmission, backup, debt service and other project-related costs.

COMBUSTION TURBINE PROJECT NO. 1

In 2002 MPPA completed construction of a 50 mW (nominal nameplate rating) simple-cycle combustion turbine generating unit fueled with natural gas (the CT Project No. 1). The unit is located in Kalkaska County, Michigan. The project included construction of natural gas pipeline and metering equipment to connect to Coral Energy, LLC's (Coral) natural gas facilities, a 69 kV electrical line tap and associated equipment to deliver the output of the CT Project No. 1 to the transmission system owned by Wolverine Power Supply Cooperative (Wolverine), and an undivided ownership interest in one or more as yet undesignated extra-high voltage electrical transmission lines on the METC transmission system. MPPA has purchased a parcel of land from Coral and entered into a long-term fuel purchase contract with Coral to supply the CT Project No.1.

MPPA entered into a Power Sales Contract with each of the five members who elected to participate in the CT Project No. 1. These contracts provide for the participants to purchase from MPPA their entitlement share, as defined, of generation and transmission of the Project. Each participant is obligated to pay its share of the operating and debt service costs of the Project.

NOTE 3 – CASH AND INVESTMENTS

MPPA adopted an investment policy, in accordance with the bond resolutions, that allows it to invest in U.S. Treasury obligations, certain federal agency securities, new Michigan Housing Authority bonds, direct and general obligations of any state, certificates of deposit with qualified United States institutions, repurchase agreements with qualified institutions, municipal obligations, time deposits, bankers' acceptances, commercial paper and pooled investment funds.

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS December 31, 2003

NOTE 3 – CASH AND INVESTMENTS (cont.)

MPPAs deposits and investments are categorized to give an indication of the level of risk assumed by the Agency at year end. Category 1 includes items that are insured or registered or which are collateralized by or evidenced by securities held by MPPA's or its agent in MPPA's name. Category 2 includes deposits collateralized with securities held by the pledging institution's trust department or agent in MPPA's name, or uninsured and unregistered investments for which the securities are held by the counter party's trust department or agent in MPPA's name. Category 3 includes uncollateralized deposits, and uninsured and uncollateralized investments.

CASH AND INVESTMENTS – DECEMBER 31, 2003

	Category			Carrying
	1	2	3	Value
Restricted Assets				
Certificates of deposit	\$ -	\$ 13,763	\$ -	\$ 13,763
Money market funds	44,332,597	1,541	-	44,334,138
	<u>\$ 44,332,597</u>	<u>\$ 15,304</u>	<u>\$ -</u>	<u>44,347,901</u>
Current Assets				
Cash and cash equivalents				
Money market funds	\$ 27,634,571	\$ 21,272,170	\$ -	48,906,741
Demand and savings deposits	-	210,932	-	210,932
	27,634,571	21,483,102	-	49,117,673
U.S. Government securities	16,328,000	-	-	16,328,000
U.S. Government Agency notes	41,323,925	-	-	41,323,925
	<u>\$ 85,286,496</u>	<u>\$ 21,483,102</u>	<u>\$ -</u>	<u>106,769,598</u>
Total Cash and Investments				<u>\$ 151,117,499</u>

Investments are stated at fair value, which is the amount at which an investment could be exchanged in a current transaction between willing parties. Fair values are based on quoted market prices. No investments are reported at amortized cost. The difference between the bank balance and carrying value is due to outstanding checks and/or deposits in transit.

Deposits in banks are insured by the FDIC in the amount of \$100,000 for all interest bearing accounts and \$100,000 for all noninterest bearing accounts.

NOTE 4 – RESTRICTED ASSETS

The Agency's bond resolutions require the segregation of bond proceeds, establishment of various funds, and prescribe the application of the Agency's revenues. Also, it defines what type of securities that the Agency may invest in. The funds established by the resolution are detailed in the balance sheet. The Agency is in compliance with all bond resolution funding requirements.

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS December 31, 2003

NOTE 5 – CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for 2003 follows:

2003

	Balance 12/31/02	Additions/ Reclassi- fications	Deletions / Reclassi- fications	Balance 12/31/03
Capital assets not being depreciated:				
Land	\$ 321,254	277,635		\$ 598,889
Capital assets being depreciated:				
Utility Plant in Service	512,823,869	4,364,131	(259,135)	516,928,865
Less: Accumulated Depreciation	(245,986,532)	(14,614,926)	14,218	(260,587,240)
Net Utility Plant	<u>\$ 267,158,591</u>			<u>\$256,940,514</u>

NOTE 6 – LONG-TERM DEBT

CAMPBELL NO. 3 PROJECT REVENUE BONDS

On May 23, 2002, MPPA issued \$11,000,000 of 2002 Series A Campbell No. 3 Project revenue bonds to finance the cost of improvements to the Campbell generating station. The bonds, with interest rates of 4.0% – 4.25%, are payable annually through 2013. Repayment of the bonds is pledged by the revenues of the MPPA members participating in the project.

The following bonds have been issued by the Agency:

Date	Purpose	Final Maturity	Interest Rates	Original Amount
July 15, 1997	Refund 1989 bonds	1/1/09	5.0 – 5.5%	\$ 24,925,000
May 1, 2002	Finance cost of improvements	1/1/13	4.0 – 4.25%	\$ 11,000,000

The following obligations are outstanding at December 31:

	2003
1997A bonds	\$ 16,240,000
Unamortized loss 1997A advanced refunding transaction	(703,388)
Unamortized premium on 1997A bonds	162,151
2002A bonds	<u>11,000,000</u>
	26,698,763
Less: Current portion	<u>2,355,000</u>
Totals	<u>\$ 24,343,763</u>

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS December 31, 2003

NOTE 6 – LONG-TERM DEBT (cont.)

CAMPBELL NO. 3 PROJECT REVENUE BONDS (cont.)

MPPA's annual debt service requirements are collected from participating member municipalities and from transfers from the project account during the period preceding the required interest and principal payments. Debt service requirements to be collected during each of the five years following December 31, 2003, and in five-year increments thereafter to maturity, are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 2,485,000	\$ 1,216,500	\$ 3,701,500
2005	2,620,000	1,079,825	3,699,825
2006	2,770,000	935,725	3,705,725
2007	2,925,000	783,375	3,708,375
2008	3,085,000	622,500	3,707,500
2009 – 2012	11,000,000	1,167,110	12,167,110
Totals	<u>\$ 24,885,000</u>	<u>\$ 5,805,035</u>	<u>\$ 30,690,035</u>

Substantially all revenues of the Campbell No. 3 Project are pledged until the debt is defeased.

Long-term liabilities as of December 31, 2003:

<u>Long-Term Liabilities</u>	<u>12/31/02 Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/03 Balance</u>
Revenue bonds	\$ 29,485,000	\$ -	\$(2,245,000)	\$ 27,240,000
Unamortized loss on advanced refunding transaction	(879,260)	-	175,872	(703,388)
Unamortized premium on bonds	223,159	-	(61,008)	162,151
Current maturities	<u>(2,245,000)</u>	<u>-</u>	<u>(110,000)</u>	<u>(2,355,000)</u>
Total Long-Term Liabilities	<u>\$ 26,583,899</u>	<u>\$ -</u>	<u>\$(2,240,136)</u>	<u>\$ 24,343,763</u>

BELLE RIVER PROJECT REVENUE BONDS

The following bonds have been issued by the Agency:

<u>Date</u>	<u>Purpose</u>	<u>Final Maturity</u>	<u>Interest Rates</u>	<u>Original Amount</u>
December 2, 2002	Refund 1993A&B bonds	1/1/18	2.125 – 5.25%	280,180,000

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS December 31, 2003

NOTE 6 – LONG-TERM DEBT (cont.)

BELLE RIVER PROJECT REVENUE BONDS (cont.)

The following obligations are outstanding at December 31:

	<u>2003</u>
2002A bonds	\$ 280,180,000
Unamortized loss 2002A advanced refunding transaction	(14,517,396)
Unamortized premium on 2002A bonds	<u>23,329,687</u>
	288,992,291
Less: Current portion	<u>11,850,000</u>
Totals	<u><u>\$ 277,142,291</u></u>

MPPA's annual debt service requirements are collected from participating member municipalities and from transfers from the project account during the period preceding the required interest and principal payments. Debt service requirements to be collected during each of the five years following December 31, 2003, and in five-year increments thereafter to maturity, are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 13,610,000	\$ 13,886,805	\$ 27,496,805
2005	14,275,000	13,222,118	27,497,118
2006	14,975,000	12,516,980	27,491,980
2007	15,685,000	11,810,780	27,495,780
2008	16,505,000	10,987,318	27,492,318
2009 – 2013	96,350,000	41,126,461	137,476,461
2014 – 2017	<u>96,930,000</u>	<u>13,047,564</u>	<u>109,977,564</u>
Totals	<u><u>\$ 268,330,000</u></u>	<u><u>\$ 116,598,026</u></u>	<u><u>\$ 384,928,026</u></u>

Substantially all revenues of the Belle River Project are pledged until the debt is defeased.

Long-term liabilities as of December 31, 2003:

<u>Long-Term Liabilities</u>	<u>12/31/02 Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/03 Balance</u>
Revenue bonds	\$ 280,180,000	\$ -	\$ -	\$ 280,180,000
Unamortized loss on advanced refunding transaction	(16,465,411)		1,948,015	(14,517,396)
Unamortized premium on bonds	26,787,327		(3,457,640)	23,329,687
Current maturities	<u>-</u>	<u>-</u>	<u>(11,850,000)</u>	<u>(11,850,000)</u>
Total Long-Term Liabilities	<u><u>\$ 290,501,916</u></u>	<u><u>\$ -</u></u>	<u><u>\$ (13,359,625)</u></u>	<u><u>\$ 277,142,291</u></u>

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS

December 31, 2003

NOTE 6 – LONG-TERM DEBT (cont.)

ADVANCE REFUNDING

On December 2, 2002, MPPA issued \$280,180,000 in bonds (new bonds) with interest rates of 2.125% – 5.25% to advance refund \$330,850,000 outstanding bonds (old bonds) with interest rates of 4.8% – 5.7%. The net proceeds of \$304,037,412, (after payment of \$3,213,323 in underwriting fees, insurance and other issuance costs) plus an additional \$49,984,538 of sinking fund monies were used to purchase U.S. government securities. Those securities were deposits in an irrevocable trust with an escrow agent to provide for all future debt service payments on the old bonds. As a result, the old bonds are considered to be defeased and the liability for the old bonds has been removed from the balance sheet.

The cash flow requirements on the old bonds prior to the advance refunding was \$498,521,385 from 2003 through 2019. The cash flow requirements on the new bonds are \$412,423,716 from 2003 through 2018. The advance refunding resulted in an economic gain (difference between the present values of the debt service payments on the old and new bonds) of \$25,452,966.

COMBUSTION TURBINE NO. 1 PROJECT REVENUE BONDS

On January 10, 2002, MPPA issued \$34,645,000 of Series A Combustion Turbine No. 1 Project revenue bonds to finance the construction of a combustion turbine. The bonds, with interest rates of 3.75% - 5.4%, are payable annually through 2027. Repayment of the bonds is pledged by the revenues of the MPPA members participating in the project.

The following obligations are outstanding at December 31:

	<u>2003</u>
2002A bonds	\$ 34,645,000
Less: unamortized discount on 2002A bonds	(61,008)
	<u>34,583,992</u>
Less: Current portion	(810,000)
Totals	<u>\$ 33,773,992</u>

MPPA's annual debt service requirements are collected from participating member municipalities and from transfers from the project account during the period preceding the required interest and principal payments. Debt service requirements to be collected during each of the five years following December 31, 2003, and in five-year increments thereafter to maturity, are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 840,000	\$ 1,714,481	\$ 2,554,481
2005	870,000	1,680,881	2,550,881
2006	905,000	1,646,081	2,551,081
2007	945,000	1,608,750	2,553,750
2008	985,000	1,566,225	2,551,225
2009 – 2013	5,665,000	7,097,963	12,762,963
2014 – 2018	7,290,000	5,474,964	12,764,964
2019 – 2023	9,415,000	3,349,764	12,764,764
2024 – 2026	<u>6,920,000</u>	<u>738,938</u>	<u>7,658,938</u>
Totals	<u>\$ 33,835,000</u>	<u>\$ 24,878,047</u>	<u>\$ 58,713,047</u>

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS December 31, 2003

NOTE 6 – LONG-TERM DEBT (cont.)

COMBUSTION TURBINE NO. 1 PROJECT REVENUE BONDS (cont.)

Substantially all revenues of the Combustion Turbine No. 1 Project are pledged until the debt is defeased.

Long-term liabilities as of December 31, 2003:

<u>Long-Term Liabilities</u>	<u>12/31/02 Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/03 Balance</u>
Revenues bonds	\$ 34,645,000	\$ -	\$ -	\$ 34,645,000
Unamortized discount on term bonds	(65,287)	-	4,279	(61,008)
Current maturities	-	-	(810,000)	(810,000)
Total Long-Term Liabilities	<u>\$ 34,579,713</u>	<u>\$ -</u>	<u>\$ (805,721)</u>	<u>\$ 33,773,992</u>

NOTE 7 – EMPLOYEE RETIREMENT PLAN

MPPA employees are covered by a defined contribution retirement pension plan. MPPA makes an annual contribution based on a percentage of employee earnings on behalf of each employee. Total contributions to the plan by MPPA for the years ended December 31, 2003, 2002 and 2001 were approximately \$139,000, \$122,100, and \$113,400, respectively.

NOTE 8 – CONTRACTS AND COMMITMENTS

CONTRACT WITH CONSUMERS ENERGY

MPPA contracted with Consumers to purchase fuel coal in order to maintain a stockpile level of 21,512 wet tons (21,281 in 2002) for the Campbell Unit No. 3 plant. The coal is purchased at the prevailing market price at the time of delivery. MPPA also purchased an additional stockpile of coal as substitute for its proportionate interest in the materials and supply inventory at Campbell Unit No. 3. This stockpile is maintained at a level to approximate MPPA's ownership interest in the materials and supply inventory at the Campbell plant.

CONTRACT WITH DETROIT EDISON

MPPA's share of the stockpile of coal for the Belle River plant equals 260,500 tons.

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS December 31, 2003

NOTE 9 – RISK MANAGEMENT

MPPA is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; workers compensation; and health care of its employees. These risks are covered through the purchase of commercial insurance, with minimal deductibles. Settled claims have not exceeded the commercial liability in any of the past three years. There were no significant reductions in coverage compared to the prior year.

NOTE 10 – CONCENTRATION OF RISK

Credit risk represents the risk of loss that would occur if customers do not meet their financial obligations to MPPA. Concentration of risk occurs when significant customers possess similar characteristics that would cause their ability to meet contractual obligations to be affected by the same events.

MPPA has two members who are considered significant customers. They accounted for \$30.8 million (26%) of MPPA revenues in 2003.

NOTE 12 – BOND COVENANT DISCLOSURES

CAMPBELL NO. 3 PROJECT

COMPLIANCE WITH FUNDING REQUIREMENTS

MPPA is in compliance with bond funding requirements.

DEBT SERVICE COVERAGE

	<u>2003</u>
Operating revenues	\$ 10,993,949
Other revenues	<u>183,019</u>
	<u>11,176,968</u>
Operating expenses	8,323,921
Less depreciation	<u>(1,218,272)</u>
	<u>7,105,649</u>
Net revenues	<u>4,071,319</u>
Debt service	3,701,025
	x <u>1.10</u>
Required revenues	<u>4,071,128</u>
Revenues in Excess of Coverage Requirements	<u>\$ 191</u>

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS December 31, 2003

NOTE 12 – BOND COVENANT DISCLOSURES (cont.)

BELLE RIVER PROJECT

COMPLIANCE WITH FUNDING REQUIREMENTS

MPPA is in compliance with bond funding requirements.

DEBT SERVICE COVERAGE

	2003
Operating revenues	\$ 63,181,402
Other revenues	<u>3,261,642</u>
	<u>66,443,044</u>
Operating expenses	48,178,207
Less depreciation	<u>(12,520,485)</u>
	<u>35,657,722</u>
Net Revenues	<u>30,785,322</u>
Debt service	<u>27,494,914</u>
Revenues in Excess of Coverage Requirements	<u><u>\$ 3,290,408</u></u>

COMBUSTION TURBINE NO. 1 PROJECT

COMPLIANCE WITH FUNDING REQUIREMENTS

MPPA is in compliance with bond funding requirements.

DEBT SERVICE COVERAGE

	2003
Operating revenues	\$ 4,535,706
Other revenues	<u>96,476</u>
	<u>4,632,182</u>
Operating expenses	2,564,387
Less depreciation	<u>(839,021)</u>
	<u>1,725,366</u>
Net Revenues	<u>2,906,816</u>
Debt service	2,554,856
	x <u>1.10</u>
Required revenues	<u>2,810,342</u>
Revenues in Excess of Coverage Requirements	<u><u>\$ 96,474</u></u>

S U P P L E M E N T A L I N F O R M A T I O N

MICHIGAN PUBLIC POWER AGENCY

SCHEDULE OF CHANGES IN FUNDS ESTABLISHED BY THE CAMPBELL NO. 3 PROJECT REVENUE BOND RESOLUTION Year Ended December 31, 2003

	Debt Service Account	Revenue Account	Operation and Maintenance Account	Operation and Maintenance Reserve Account	Fuel Reserve Account	Construction Account	Project Account	Totals
Cash and investments at January 1, 2003	\$ 3,076,093	\$ -	\$ 1,010,727	\$ 250,000	\$ 800,000	\$ 6,693,201	\$ 5,980,679	\$ 17,810,700
Receipts	-	11,217,386	-	-	-	-	-	11,217,386
Investment receipts	16,734	-	98,683	-	-	70,557	-	185,974
Net increase (decrease) in fair value of investments	-	-	-	-	-	-	-	-
Proceeds from bonds	-	-	-	-	-	-	-	-
Payment of interest on bonds	(1,477,621)	-	-	-	-	-	-	(1,477,621)
Payment of bond principal	(2,245,000)	-	-	-	-	-	-	(2,245,000)
Disbursements	-	(1,674,425)	(6,159,845)	-	-	-	-	(7,834,270)
Transfers – net	<u>3,660,500</u>	<u>(9,542,961)</u>	<u>6,552,553</u>	<u>-</u>	<u>-</u>	<u>(670,113)</u>	<u>21</u>	<u>-</u>
CASH AND INVESTMENTS AT DECEMBER 31, 2003	<u>\$ 3,030,706</u>	<u>\$ -</u>	<u>\$ 1,502,118</u>	<u>\$ 250,000</u>	<u>\$ 800,000</u>	<u>\$ 6,093,645</u>	<u>\$ 5,980,700</u>	<u>\$ 17,657,169</u>

MICHIGAN PUBLIC POWER AGENCY

SCHEDULE OF CHANGES IN FUNDS ESTABLISHED BY THE BELLE RIVER PROJECT REVENUE BOND RESOLUTION Year Ended December 31, 2003

	Debt Service Account	Debt Service Reserve Account	Reserve and Contingency Account	Revenue Account	Operation and Maintenance Account	Project Account	Totals
Cash and investments at January 1, 2003	\$ 1,879,380	\$ -	\$ 8,047,520	\$ -	\$ 8,342,610	\$ 83,410,781	\$ 101,680,291
Receipts	-	-	-	61,760,695	26,004	-	61,786,699
Investment receipts	103,187	609	320,464	-	79,494	3,243,780	3,747,534
Net Increase (decrease) in fair value of investments	-	-	(49,818)	-	-	(1,368,065)	(1,417,883)
Bond refunding - net	-	-					-
Payment of interest on bonds	(8,406,041)	-	-	-	-	-	(8,406,041)
Payment of bond principal	-	-	-	-	-	-	-
Disbursements	-	-	-	-	(33,431,387)	(2,827,146)	(36,258,533)
Transfers – net	<u>25,634,609</u>	<u>(609)</u>	<u>-</u>	<u>(61,760,695)</u>	<u>33,299,549</u>	<u>2,827,146</u>	<u>-</u>
CASH AND INVESTMENTS AT DECEMBER 31, 2003	<u>\$ 19,211,135</u>	<u>-</u>	<u>\$ 8,318,166</u>	<u>\$ -</u>	<u>\$ 8,316,270</u>	<u>\$ 85,286,496</u>	<u>\$ 121,132,067</u>

MICHIGAN PUBLIC POWER AGENCY

DETAILS OF REVENUES AND EXPENSES - CAMPBELL NO. 3 PROJECT

	2003 Budget	2003 Actual	2002 Actual	2003 Actual Over (Under) Budget
OPERATING REVENUES				
Sales to Participants				
Power	\$ 5,720,527	\$ 4,807,951	\$ 4,891,615	\$ (912,576)
Backup capacity	522,000	808,865	606,879	286,865
Transmission	374,852	313,942	363,696	(60,910)
Energy (fuel)	4,466,680	4,446,427	3,535,427	(20,253)
Backup energy	570,742	630,446	1,927,838	59,704
Transmission utilization	-	(13,682)	(1,597)	(13,682)
Total Operating Revenue	<u>11,654,801</u>	<u>10,993,949</u>	<u>11,323,858</u>	<u>(660,852)</u>
OPERATING EXPENSES				
Production				
Fuel	4,466,680	4,446,427	3,535,427	(20,253)
Operation	779,640	406,936	405,127	(372,704)
Maintenance	678,120	330,288	607,850	(347,832)
Total Production	<u>5,924,440</u>	<u>5,183,651</u>	<u>4,548,404</u>	<u>(740,789)</u>
Purchased Power				
Backup capacity	522,000	808,865	606,879	286,865
Backup energy	570,742	630,446	1,927,838	59,704
Total Purchased Power	<u>1,092,742</u>	<u>1,439,311</u>	<u>2,534,717</u>	<u>346,569</u>
Transmission				
Operation	18,000	41,947	36,859	23,947
Maintenance	36,000	590	27,379	(35,410)
Utilization	-	(13,682)	(1,597)	(13,682)
Total Transmission	<u>54,000</u>	<u>28,855</u>	<u>62,641</u>	<u>(25,145)</u>
General and Administrative				
Salaries and wages	199,456	85,583	125,579	(113,873)
Employee benefits	181,464	179,433	177,932	(2,031)
Outside services	83,761	36,339	50,882	(47,422)
Taxes	54,000	45,950	48,517	(8,050)
Insurance and liability	76,532	64,890	30,955	(11,642)
Meetings and travel	13,620	9,055	4,738	(4,565)
Office supplies	39,900	11,885	13,197	(28,015)
Rents	17,088	12,036	9,423	(5,052)
Miscellaneous	31,722	8,661	15,979	(23,061)
Total General and Administrative	<u>697,543</u>	<u>453,832</u>	<u>477,202</u>	<u>(243,711)</u>

MICHIGAN PUBLIC POWER AGENCY

DETAILS OF REVENUES AND EXPENSES - CAMPBELL NO. 3 PROJECT (cont.)

	2003 Budget	2003 Actual	2002 Actual	2003 Actual Over (Under) Budget
OPERATING EXPENSES (cont.)				
Depreciation	\$ 1,212,960	\$ 1,218,272	\$ 1,192,807	\$ 5,312
Total Operating Expense	<u>8,981,685</u>	<u>8,323,921</u>	<u>8,815,771</u>	<u>(657,764)</u>
Operating Income	<u>2,673,116</u>	<u>2,670,028</u>	<u>2,508,087</u>	<u>(3,088)</u>
OTHER EXPENSES				
Interest cost incurred	1,346,028	1,460,889	1,279,661	114,861
Amortization of financing-related costs	<u>154,248</u>	<u>72,026</u>	<u>173,297</u>	<u>(82,222)</u>
Total Other Expenses	<u>1,500,276</u>	<u>1,532,915</u>	<u>1,452,958</u>	<u>32,639</u>
OTHER REVENUES				
Investment income	210,000	183,019	232,999	(26,981)
Net change in fair value of investments	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Other Income	<u>210,000</u>	<u>183,019</u>	<u>232,999</u>	<u>(26,981)</u>
Income before deferred revenue	<u><u>\$ 1,382,840</u></u>	1,320,132	1,288,128	<u><u>\$ (62,708)</u></u>
Deferred revenue to be recognized in future periods		<u>(1,320,132)</u>	<u>(1,288,128)</u>	
CHANGE IN NET ASSETS		<u>\$ -</u>	<u>\$ -</u>	

MICHIGAN PUBLIC POWER AGENCY

DETAILS OF REVENUES AND EXPENSES - BELLE RIVER PROJECT

	2003 Budget	2003 Actual	2002 Actual	2003 Actual Over (Under) Budget
OPERATING REVENUES				
Sales to Participants				
Power	\$ 35,870,302	\$ 36,928,776	\$ 36,139,062	\$ 1,058,474
Backup capacity	320,796	333,372	304,776	12,576
Transmission	3,316,241	2,781,206	3,380,684	(535,035)
Energy (fuel)	23,281,713	20,102,862	19,175,836	(3,178,851)
Backup energy	4,281,830	3,257,922	3,303,610	(1,023,908)
Transmission utilization	-	(222,736)	(211,920)	(222,736)
Total Sales to Participants	<u>67,070,882</u>	<u>63,181,402</u>	<u>62,092,048</u>	<u>(3,889,480)</u>
OPERATING EXPENSES				
Production				
Fuel	23,281,713	20,102,862	19,175,836	(3,178,851)
Operation	2,688,000	2,509,624	2,528,445	(178,376)
Maintenance	3,600,000	4,546,578	4,427,787	946,578
Total Production	<u>29,569,713</u>	<u>27,159,064</u>	<u>26,132,068</u>	<u>(2,410,649)</u>
Purchased Power				
Backup capacity	320,796	333,372	304,776	12,576
Backup energy	4,281,830	3,257,922	3,303,610	(1,023,908)
Total Purchased Power	<u>4,602,626</u>	<u>3,591,294</u>	<u>3,608,386</u>	<u>(1,011,332)</u>
Transmission				
Operation	312,000	280,485	472,242	(31,515)
Maintenance	276,000	43,303	203,103	(232,697)
Utilization	-	(222,736)	(211,920)	(222,736)
Total Transmission	<u>588,000</u>	<u>101,052</u>	<u>463,425</u>	<u>(486,948)</u>
General and Administrative				
Salaries and wages	1,113,016	877,100	873,696	(235,916)
Employee benefits	1,250,748	1,791,422	810,883	540,674
Outside services	384,850	259,854	227,583	(124,996)
Taxes	560,000	652,255	509,380	92,255
Insurance and liability	199,952	201,307	166,628	1,355
Meetings and travel	19,680	12,966	15,351	(6,714)
Office supplies	1,124,952	874,538	368,721	(250,414)
Rents	34,548	(9,503)	(1,549)	(44,051)
Miscellaneous	100,221	146,373	79,898	46,152
Total General and Administrative	<u>4,787,967</u>	<u>4,806,312</u>	<u>3,050,591</u>	<u>18,345</u>

MICHIGAN PUBLIC POWER AGENCY

DETAILS OF REVENUES AND EXPENSES - BELLE RIVER PROJECT (cont.)

	2003 Budget	2003 Actual	2002 Actual	2003 Actual Over (Under) Budget
OPERATING EXPENSES (cont.)				
Depreciation	\$ 12,408,000	\$ 12,520,485	\$ 12,420,980	\$ 112,485
Total Operating Expense	<u>51,956,306</u>	<u>48,178,207</u>	<u>45,675,450</u>	<u>(3,778,099)</u>
Operating Income	<u>15,114,576</u>	<u>15,003,195</u>	<u>16,416,598</u>	<u>(111,381)</u>
OTHER EXPENSES				
Interest cost incurred	15,645,693	12,969,680	17,788,554	(2,676,013)
Amortization of financing-related costs	<u>978,888</u>	<u>348,101</u>	<u>674,806</u>	<u>(630,787)</u>
Total Other Expenses	<u>16,624,581</u>	<u>13,317,781</u>	<u>18,463,360</u>	<u>(3,306,800)</u>
OTHER REVENUES				
Investment income	4,000,200	3,261,642	6,352,023	(738,558)
Net change in fair value of investments	<u>-</u>	<u>(1,416,945)</u>	<u>(285,980)</u>	<u>(1,416,945)</u>
Total Other Income	<u>4,000,200</u>	<u>1,844,697</u>	<u>6,066,043</u>	<u>(2,155,503)</u>
Income (loss) before deferred revenue	<u>\$ 2,490,195</u>	3,530,111	4,019,281	<u>\$ 1,039,916</u>
Deferred revenue to be recognized in future periods		<u>(3,530,111)</u>	<u>(4,019,281)</u>	
CHANGE IN NET ASSETS		<u>\$ -</u>	<u>\$ -</u>	

MICHIGAN PUBLIC POWER AGENCY

DETAILS OF REVENUES AND EXPENSES - POWER POOL PROJECT

	2003 Budget	2003 Actual	2002 Actual	2003 Actual Over (Under) Budget
OPERATING REVENUES				
Sales to Participants				
Power	\$ 29,679,977	\$ 27,486,255	\$ 25,799,051	\$ (2,193,722)
Capacity	6,024,735	5,886,415	9,497,288	(138,320)
Transmission	4,525,050	4,559,553	4,154,058	34,503
Total Operating Revenue	<u>40,229,762</u>	<u>37,932,223</u>	<u>39,450,397</u>	<u>(2,297,539)</u>
OPERATING EXPENSES				
Purchased Power				
Capacity	6,024,735	5,750,838	9,080,356	(273,897)
Energy	29,010,557	26,555,624	25,326,043	(2,454,933)
Total Purchased Power	<u>35,035,292</u>	<u>32,306,462</u>	<u>34,406,399</u>	<u>(2,728,830)</u>
Transmission				
Wheeling	<u>5,170,250</u>	<u>5,130,145</u>	<u>4,838,784</u>	<u>(40,105)</u>
General and Administrative				
Salaries and wages	207,737	197,485	155,446	(10,252)
Employee benefits	84,528	79,402	58,668	(5,126)
Outside services	421,968	412,581	361,622	(9,387)
Insurance and liability	7,781	6,614	5,488	(1,167)
Meetings and travel	19,200	11,421	9,297	(7,779)
Office supplies	8,724	9,445	5,449	721
Rents	18,936	16,966	15,018	(1,970)
Miscellaneous	15,156	29,923	7,410	14,767
Total General and Administrative	<u>784,030</u>	<u>763,837</u>	<u>618,398</u>	<u>(20,193)</u>
Depreciation	<u>785</u>	<u>767</u>	<u>964</u>	<u>(18)</u>
Total Operating Expense	<u>40,990,357</u>	<u>38,201,211</u>	<u>39,864,545</u>	<u>(2,789,146)</u>
 Operating Income (Loss)	 <u>(760,595)</u>	 <u>(268,988)</u>	 <u>(414,148)</u>	 <u>491,607</u>
OTHER EXPENSES				
Interest costs incurred	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
OTHER REVENUES				
Investment income	<u>36,000</u>	<u>38,495</u>	<u>95,888</u>	<u>2,495</u>
Income before deferred revenue	<u>\$ (724,595)</u>	<u>(230,493)</u>	<u>(318,260)</u>	<u>\$ 494,102</u>
 Deferred revenue to be recognized in future periods				
Deferred revenue recognized in current period		<u>230,493</u>	<u>318,260</u>	
 CHANGE IN NET ASSETS		 <u>\$ -</u>	 <u>\$ -</u>	

MICHIGAN PUBLIC POWER AGENCY

DETAILS OF REVENUES AND EXPENSES - COMBUSTION TURBINE NO. 1 PROJECT

	2003 Budget	2003 Actual	2002 Actual	2003 Actual Over (Under) Budget
OPERATING REVENUES				
Sales to Participants				
Power	\$ 3,819,431	\$ 3,897,540	\$ 226,295	\$ 78,109
Backup capacity	-	-	-	-
Transmission	350,500	12,123	580	(338,377)
Energy (fuel)	160,164	626,043	22,278	465,879
Backup energy	-	-	-	-
Transmission utilization	-	-	-	-
Total Operating Revenue	<u>4,330,095</u>	<u>4,535,706</u>	<u>249,153</u>	<u>205,611</u>
OPERATING EXPENSES				
Production				
Fuel	160,164	626,043	22,278	465,879
Operation	721,365	718,618	61,464	(2,747)
Maintenance	287,000	124,147	-	(162,853)
Total Production	<u>1,168,529</u>	<u>1,468,808</u>	<u>83,742</u>	<u>300,279</u>
Purchased Power				
Backup capacity	-	-	-	-
Backup energy	-	-	-	-
Total Purchased Power	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Transmission				
Operation	350,500	12,123	580	(338,377)
Maintenance	-	-	-	-
Utilization	-	-	-	-
Total Transmission	<u>350,500</u>	<u>12,123</u>	<u>580</u>	<u>(338,377)</u>
General and Administrative				
Salaries and wages	78,452	77,462	7,211	(990)
Employee benefits	33,346	57,874	3,434	24,528
Outside services	72,258	71,058	2,908	(1,200)
Taxes	-	8,217	-	8,217
Insurance and liability	2,366	2,267	-	(99)
Meetings and travel	13,052	12,737	2,529	(315)
Office supplies	2,664	5,897	5	3,233
Rents	5,796	8,218	339	2,422
Miscellaneous	2,098	705	-	(1,393)
Total General and Administrative	<u>210,032</u>	<u>244,435</u>	<u>16,426</u>	<u>34,403</u>

MICHIGAN PUBLIC POWER AGENCY

DETAILS OF REVENUES AND EXPENSES - COMBUSTION TURBINE NO. 1 PROJECT (cont.)

	2003 Budget	2003 Actual	2002 Actual	2003 Actual Over (Under) Budget
OPERATING EXPENSES (cont.)				
Depreciation	\$ 840,000	\$ 839,021	\$ 68,858	\$ (979)
Total Operating Expense	<u>2,569,061</u>	<u>2,564,387</u>	<u>169,606</u>	<u>(4,674)</u>
Operating Income	<u>1,761,034</u>	<u>1,971,319</u>	<u>79,547</u>	<u>210,285</u>
OTHER EXPENSES				
Interest cost incurred	1,744,856	1,749,173	145,405	4,317
Amortization of financing-related costs	<u>67,200</u>	<u>58,789</u>	<u>5,693</u>	<u>(8,411)</u>
Total Other Expenses	<u>1,812,056</u>	<u>1,807,962</u>	<u>151,098</u>	<u>(4,094)</u>
OTHER REVENUES				
Investment income	48,000	96,476	12,088	48,476
Net change in fair value of investments	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Other Income	<u>48,000</u>	<u>96,476</u>	<u>12,088</u>	<u>48,476</u>
Income before deferred revenue	<u>\$ (3,022)</u>	259,833	(59,463)	<u>\$ 262,855</u>
Deferred revenue to be recognized in future periods		<u>(259,833)</u>		
Deferred revenue recognized in current period		<u>-</u>	<u>59,463</u>	
CHANGE IN NET ASSETS		<u>\$ -</u>	<u>\$ -</u>	

MICHIGAN PUBLIC POWER AGENCY

DETAILS OF REVENUES AND EXPENSES - GENERAL OFFICE OPERATION

	2003 Budget	2003 Actual	2002 Actual	2003 Actual Over (Under) Budget
OPERATING REVENUES				
Participant membership fees	\$ 432,440	\$ 432,443	\$ 401,478	\$ 3
Charges for Services				
Projects	112,501	112,501	103,000	-
MMEA	206,100	205,789	209,076	(311)
Total Operating Revenue	<u>751,041</u>	<u>750,733</u>	<u>713,554</u>	<u>(308)</u>
OPERATING EXPENSES				
General and Administrative				
Salaries and wages	268,792	268,498	230,366	(294)
Employee benefits	134,396	134,249	115,183	(147)
Outside services	375,216	374,229	217,512	(987)
Insurance and liability	5,871	4,991	4,391	(880)
Meetings and travel	36,040	26,306	29,599	(9,734)
Office supplies	12,648	15,693	16,020	3,045
Rents	33,444	24,893	25,021	(8,551)
Miscellaneous	105,530	111,830	94,672	6,300
Total General and Administrative	<u>971,937</u>	<u>960,689</u>	<u>732,764</u>	<u>(11,248)</u>
Depreciation	<u>33,372</u>	<u>36,381</u>	<u>36,693</u>	<u>3,009</u>
Total Operating Expense	<u>1,005,309</u>	<u>997,070</u>	<u>769,457</u>	<u>(8,239)</u>
Operating Income (Loss)	<u>(254,268)</u>	<u>(246,337)</u>	<u>(55,903)</u>	<u>7,931</u>
OTHER REVENUES				
Interest income	-	7,137	14,992	7,137
Prepaid lease income	<u>24,000</u>	<u>24,000</u>	<u>24,000</u>	<u>-</u>
CHANGE IN NET ASSETS	<u>\$ (230,268)</u>	<u>\$ (215,200)</u>	<u>\$ (16,911)</u>	<u>\$ 15,068</u>